

**REPORT OF THE AUDIT OF THE
LAUREL COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
June 11, 2008 Through April 15, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
LAUREL COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
June 11, 2008 Through April 15, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Laurel County Sheriff for the period June 11, 2008 through April 15, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$18,564,956 for the districts for 2008 taxes, retaining commissions of \$604,268 to operate the Sheriff's office. The Sheriff distributed taxes of \$17,893,494 to the districts for 2008 taxes. Taxes of \$1,782 are due to the districts from the Sheriff and refunds of \$928 are due to the Sheriff from the taxing districts.

Report Comments:

- 2008-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Accounting Functions
- 2008-02 The Sheriff's Commissions Earned On Common School Tax Collections Should Not Have Been Reduced For Rent Payments

Deposits:

The Sheriff's deposits as of April 15, 2009, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$31,262

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Lawrence Kuhl, Laurel County Judge/Executive

Honorable Fred Yaden, Laurel County Sheriff

Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the Laurel County Sheriff's Settlement - 2008 Taxes for the period June 11, 2008 through April 15, 2009. This tax settlement is the responsibility of the Laurel County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Laurel County Sheriff's taxes charged, credited, and paid for the period June 11, 2008 through April 15, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Lawrence Kuhl, Laurel County Judge/Executive
Honorable Fred Yaden, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2008-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Accounting Functions
- 2008-02 The Sheriff's Commissions Earned On Common School Tax Collections Should Not Have Been Reduced For Rent Payments

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 30, 2010

LAUREL COUNTY
 FRED YADEN, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES
 For The Period June 11, 2008 Through April 15, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,286,332	\$ 2,938,525	\$ 8,846,544	\$ 2,574,480
Tangible Personal Property	209,961	635,057	1,483,035	1,124,182
Fire Protection	1,662			
Increases Through Exonerations	258	953	1,786	1,225
Franchise Taxes	93,338	252,658	655,057	
Additional Billings	662	1,449	4,427	1,322
Unmined Coal - 2008 Taxes	105	219	698	206
Oil & Gas Property Taxes	801	1,774	5,544	1,603
Penalties	7,525	17,494	51,772	15,444
Adjusted to Sheriff's Receipt	3	15	(7)	(6)
Gross Chargeable to Sheriff	<u>1,600,647</u>	<u>3,848,144</u>	<u>11,048,856</u>	<u>3,718,456</u>
<u>Credits</u>				
Exonerations	9,645	22,877	66,436	18,905
Discounts	21,885	52,913	151,091	54,389
Delinquents:				
Real Estate	79,051	178,524	542,307	157,962
Tangible Personal Property	8,151	24,559	57,590	54,793
Unmined Coal - 2008 Taxes	36	80	249	72
Oil & Gas Property Taxes	154	341	1,064	308
Franchise Taxes	<u>14,336</u>	<u>33,745</u>	<u>99,684</u>	
Total Credits	<u>133,258</u>	<u>313,039</u>	<u>918,421</u>	<u>286,429</u>
Taxes Collected	1,467,389	3,535,105	10,130,435	3,432,027
Less: Commissions (a)	<u>62,652</u>	<u>147,420</u>	<u>248,047</u>	<u>146,149</u>
Taxes Due	1,404,737	3,387,685	9,882,388	3,285,878
Taxes Paid	1,400,645	3,376,833	9,851,014	3,265,002
Refunds (Current and Prior Year)	<u>4,368</u>	<u>10,667</u>	<u>30,429</u>	<u>20,876</u>
Due Districts or (Refunds Due Sheriff)	<u>\$ (276)</u>	<u>\$ 185</u>	<u>\$ 945</u>	<u>\$ 0</u>

(a), (b), and (c) - See Next Page.

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 FRED YADEN, SHERIFF
 SHERIFF'S SETTLEMENT - 2008 TAXES
 For The Period June 11, 2008 Through April 15, 2009
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on		8,337,683
2.448% on		10,026,374
2.5% on		104,061
1% on		86,838

(b) Special Taxing Districts:

Library District	\$	238
Health District		21
Extension District		81
Soil Conservation District		40
Bush Fire District		(195)

Due Districts or
 (Refunds Due Sheriff)

\$ 185

(c) School Districts:

Common School District	\$	1,402
Graded School District		(457)

Due Districts or
 (Refund Due Sheriff)

\$ 945

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Laurel County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Laurel County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2009, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$31,262

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 22, 2008 through April 15, 2009.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 19, 2008 through April 15, 2009.

Note 4. Interest Income

The Laurel County Sheriff earned \$3,372 as interest income on 2008 taxes. As of April 15, 2009, the Sheriff owed \$6 in interest to the graded school district and \$72 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Laurel County Sheriff collected \$67,597 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of April 15, 2009, the Sheriff owed \$2,113 in 10% add-on fees to his fee account.

Note 6. Unexplained Receipts

The Sheriff has \$5,118 of unexplained receipts related to 2008 taxes that are maintained in an interest bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed monies. KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer according to KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lawrence Kuhl, Laurel County Judge/Executive
Honorable Fred Yaden, Laurel County Sheriff
Members of the Laurel County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Laurel County Sheriff's Settlement - 2008 Taxes for the period June 11, 2008 through April 15, 2009, and have issued our report thereon dated June 30, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Laurel County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Laurel County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations as item 2008-01 to be a significant deficiency in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's Settlement - 2008 Taxes for the period June 11, 2008 through April 15, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2008-02.

The Laurel County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Laurel County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 30, 2010

COMMENTS AND RECOMMENDATIONS

LAUREL COUNTY
FRED YADEN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period June 11, 2008 Through April 15, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

2008-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Accounting Functions

While reviewing the internal controls of the Sheriff's tax collection procedures, we identified control deficiencies in the lack of adequate segregation of duties over receipts and disbursements. These control deficiencies exist because one employee was responsible for performing almost all accounting duties related to the collection and disbursement of 2008 taxes (i.e. cash collections, deposit preparation, daily and monthly report preparation, and disbursement preparations).

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involving the opening of mail, collecting and depositing of cash, and preparing the monthly tax reports. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff does implement compensating controls, these should be documented on the appropriate source documents.

- a) The Sheriff, or his designee, could periodically compare a daily tax collection report to the deposit slip, resolve any discrepancies, and document the review by initialing the deposit tickets.
- b) The Sheriff, or his designee, could compare total tax collections per the monthly reports to the totals per daily collection reports, resolve any discrepancies, and document the review by initialing the reports.
- c) The Sheriff, or his designee, could compare total tax collections per the monthly reports to the total of the monthly disbursement checks, resolve any discrepancies, and document his review by initialing the monthly reports.

Sheriff's Response: Ok.

LAUREL COUNTY
FRED YADEN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period June 11, 2008 Through April 15, 2009
(Continued)

STATE LAWS AND REGULATIONS:

2008-02 The Sheriff's Commissions Earned On Common School Tax Collections Should Not Have Been Reduced For Rent Payments

In accordance with KRS 160.510, on November 12, 2008, the Sheriff paid gross tax collections of \$7,157,542 for the month of October 2008 to the Laurel County Board of Education (Board). On December 2, 2008, the Board refunded the Sheriff commissions of \$164,773 for these collections, retaining \$14,400 of the amount due the Sheriff, to cover rent payments due to the Board for the Board's interest in the building occupied by the Laurel County Sheriff's office. KRS 160.500(1) states, "The tax collector shall be entitled to a fee equal to his expense but not less than one and one half percent (1.5%) and not to exceed the rate of four percent (4%) for the collection of school taxes, which fee may be charged only for collecting or receiving school taxes or school funds received from the local school levy." For the 2008 tax collection period, the Sheriff entered into an agreement with the Board to pay the Sheriff's office a fee of 2.448% for collecting common school taxes. In accordance with KRS 160.500(1), the Board should have refunded commissions of \$179,173 to the Sheriff for October 2008 tax collections.

Since rent payments are liabilities of the fee account, they should not be commingled with tax account transactions. We recommend the Sheriff obtain the refund due from the Board in order to settle all 2008 taxes due. In addition, we recommend the Sheriff consult with the County Judge/Executive and the County Attorney to determine the proper disposition of rent obligation, so that any future rent obligations are settled properly.

Sheriff's Response: I have no way of preventing this. This is the last year anything is to be paid to the board. I have presented this to the Judge/Executive and County Attorney, and both are aware of the situation.

